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## Review of “The Econocracy” (Joe Earle, Cahal Moran and Zach Ward-Perkins)

by Edmund Cannon

### BOOK REVIEW:

The Econocracy: the perils of leaving economics to the experts. Earle, J., Moran, C. And Ward-Perkins, Z. (2016). Manchester: Manchester University Press. ISBN 978-1526-110138, pb £10.00, 212 pages

### Introduction

Following the financial crisis there has been a plethora of books discussing how economics should respond in terms of content and education. The novelty of this book is that it is written by recently-graduated students and thus provides a different perspective on how economics teaching in the UK.

This book consists of six substantive chapters, starting with a discussion of the “econocracy” and then spending four chapters discussing university economics education before a short discussion of economics in wider society.<sup>1</sup> The themes that I understand to be most important in this book are (i) that economics is too powerful, creating an “econocracy”; (ii) the subject of economics is badly flawed; and (iii) that the solution to this is to return it to a part of a liberal arts education where there is much more room for debate of widely divergent - or “pluralist” - approaches to economics. Part of the authors’ argument is based on some very useful data that they have collected on economics teaching at UK universities.

### The “Econocracy”

Chapter 1 makes the complaint that economic considerations are too influential in society and that economists have too much power. A review of potentially problematic instances of economists’ influence, such as Bank of England independence, helps flesh out this definition of “econocracy” at the beginning of the chapter.

Unfortunately relatively little evidence is provided to show that the involvement of economists is pernicious or problematic<sup>2</sup> and no comparison is made with other professional groups which have significant influence (such as lawyers). To assert that economists have too much influence implies an optimal level of influence which is lower, but here there is no

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<sup>1</sup> Much of chapter 4 discusses particular constraints on the university sector in the UK (such as the Research Assessment Exercise) and chapter 6 discusses how to make economics more widely understood in society. In the interests of space, I shall direct my comments in this review to the subject-specific issues within higher education.

<sup>2</sup> Furthermore, some of the instances highlighted as problematic are contestable. Presumably the authors claim that the creation of the technocratic Monti government in Italy was “incredible”, because an unelected economist became prime minister: *prima facie* this could be evidence for the econocracy and in the UK such an event would indeed be incredible. The problem is that the example is shorn from its Italian context, where there are both good reasons and precedents for caretaker governments (such as the Ciampi ministry in 1993-94). Many would see the Monti episode as saying more about the weakness of the Italian party system in the Berlusconi era than the influence of economists.

statement of the appropriate rôle for technically-trained economists and no discussion of how the world would operate with fewer such people.<sup>3</sup> At the end of this chapter I felt that the authors had raised an interesting political issue but had not phrased a sufficiently precise question to begin to find an answer.

### Economics education

One of the most valuable parts of the book is the evidence reported in Chapter 2 on the teaching of seven UK economics departments. From the data we learn that, across all modules analysed, 48 per cent of questions were on model solving and 24 per cent were on evaluation (other questions were descriptive or multiple choice): on “core” modules, the proportions were 55 per cent of questions and 8 per cent respectively. Digging further into the data, it is clear that the University of Manchester is an outlier when it comes to the proportion of assessment done by multiple-choice questions and the LSE has a very low proportion of evaluative questions in its compulsory “core” units.

These variations are interesting and suggest further lines of enquiry, but it is not clear what conclusions can be drawn from them. The variation between universities undermines the claim that there is a systematic problem in economics education. Without some idea of the “correct” percentage of questions that should be evaluative, one cannot conclude that 24 percent is too low; similarly, one needs to know how “core” units interact with other units to say that there should be more than 8 per cent of evaluative questions on core units.<sup>4</sup> If there are intrinsic benefits from measuring students’ technical ability, or if students need to demonstrate technical ability before they can evaluate material, then the 48 per cent of model-solving questions might be appropriate. As with chapter 1, we have been shown an interesting idea, but the question is not well formed and the answer is unconvincing.<sup>5</sup>

More revealing is the discussion of the mathematical problem-solving question on page 49 (exercise 2.4, taken from an LSE exam). The main point of the question appears to be to show that the Euler equation depends on VAT if that tax is levied on goods consumed in period 1 but not period 2 and the question then directs students to think how this might undermine Ricardian equivalence.<sup>6</sup> My own view is that the reported question is not particularly well written, but this does not justify the authors’ assertion that: “on first glance one could be fooled by words like ‘income’ and ‘taxes’ into thinking that this exercise is related to the real world, but in fact it is a purely hypothetical exercise” (p.48).

I was unsure why “hypothetical exercise” was used as a pejorative term, especially given the praise given to philosophy teaching a few pages earlier (p.46), since a lot of philosophy is

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<sup>3</sup> For example, one might accept that the UK’s Institute of Fiscal Studies is not completely neutral because it contributes to an ideology of a mixed market economy by analysing government policy within such a context, but this does not address the issue of whether removing the IFS (and the expertise that it brings to the analysis of government policy) would improve government policy making.

<sup>4</sup> The authors might also like to consider the possibility that some students have different preferences and might like doing technical material.

<sup>5</sup> Another issue with this analysis is that the UK has a very strange 101-point marking scale: although in principle marks can be awarded anywhere on the scale, in practice much of the scale is rarely used, with nearly all marks in the range 30-80 and many in the 60s. This means that the weight awarded to problem-solving questions often says more about examiners’ efforts to get the “correct” distribution of marks than the relative importance of the components of a question.

<sup>6</sup> This discussion is complicated since the reproduced question appears to contain at least one error: VAT would not usually appear in the direct utility function. And without knowing the context of the course, it is difficult to know why the lecturer asked this question.

based on hypothetical exercises<sup>7</sup> and a large amount of theorising in any subject involves thought experiments. Returning to the question on page 49: if one is going to engage in the political debate concerning “austerity”, one has to argue (i) that fiscal policy is effective; and (ii) to discuss why or under what circumstances fiscal policy is effective. Accordingly I think that Ricardian equivalence is related to the real world. Certainly the question might be better phrased; it might explicitly ask for some discussion of whether goods consumed in retirement bear less VAT; it might explicitly link the question to the austerity debate.<sup>8</sup> But it is a very weak argument to say that a question on the effect of fiscal policy has no link to the real world just because it is poorly phrased.

### Changing the curriculum

In chapter 2 the authors’ criticisms primarily concern pedagogy; in chapters 3 and 4 they are more interested in curriculum. The authors believe that the curriculum should expose students to a plurality (i.e. a variety) of approaches to economics. Certainly this is one possible way to teach economics, but it raises the question of which approaches and how much weight to give to each approach. Nor is it the case that current education only teaches one school of thought: regardless of what it is called,<sup>9</sup> the debate over the effectiveness of government intervention at both micro and macro levels is still taught virtually universally; similarly within economic growth there are debates over the relevance of the competing insights of Smith and Malthus. Since different and competing theories are taught already, the question then becomes not *if* but *how many* different theories should be taught.

Whenever one has a plurality of views there is an issue of evaluating these views, raising the question: how? One obvious answer is to use evidence:<sup>10</sup> in the context of economics this means testing theories against data collected for other purposes (necessitating identification strategies) or data from field or laboratory experiments (creating other problems, since these experiments are not directly comparable to experiments in the natural sciences). To get a measure of how empirics are in economics, I counted the papers in the 2016 issue of the *Economic Journal* finding that almost three-quarters are empirical papers using some statistical method to test a theory or quantify a causal effect.<sup>11</sup> Contrary to the authors’ claim that economics is dominated by neo-classical theory, economics is actually dominated by empirical analysis.

This has important implications for how the economics syllabus needs to be considered. Consider the quote in the book of Chris Giles:

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<sup>7</sup> For example, many philosophy students will have encountered the hypothetical exercise initially proposed by Philippa Foot and since used in a variety of contexts: one is asked to consider the situation of a runaway tram that will kill one or five people depending on whether the points are switched and one has to decide what to do and how many people will die: the likelihood of any of us finding ourselves in such a contrived situation is mercifully quite low.

<sup>8</sup> Although one of the learning outcomes being tested might have been to see whether students could make that connection themselves.

<sup>9</sup> I hesitate to call the debate “Keynesian” versus “Classical”, since both terms can be qualified by a variety of prefixes such as “neo”, “new”, “post” and many of these schools overlap considerably. As the authors themselves recognise, models of efficiency wages are effectively re-statements of Marx’s theory of the reserve army of labour: would a rose by any other name smell as sweet?

<sup>10</sup> For the sake of space I assume that one can accept an empirical view of economics without getting distracted by whether economics is a science, nor by the precise view of empiricism being used.

<sup>11</sup> These figures are based on a quick read of the abstracts for all papers other than in the special edition in October and the conference edition in May: papers with small amounts of data to motivate a question or papers that used data primarily to calibrate models were treated as non-empirical. On this basis I counted 49 empirical papers and 18 non-empirical papers.

“There was a time when any self-respecting economics undergraduate could distinguish between neo-Keynesian, new-Keynesian and post-Keynesian thinking; they would write essays on the difference between Marxist and monetarist policies ... (p.99)”

In an unfair parody, I suggest the following for comparison:

“There was a time when any self-respecting economics undergraduate could not distinguish bad statistical analysis from the good; they had no access to advanced statistical software; they could not analyse data or test sophisticated theories ...”

That the authors of this book make only two references to econometrics in the main text suggests that they have not thought this point through sufficiently carefully. I was more impressed by their suggestion in the appendix that econometrics teaching tends to be too theoretical and that there should be more project work. But this raises the question of what would be removed from the syllabus to create space for such a project if simultaneously more pluralist material were being added and this issue is not discussed even in the appendix.<sup>12</sup> For these authors there is no econometrics in the soul of economics.

## Summary

*The Econocracy* is a polemic arguing for better education, largely via very specific changes to pedagogy (more evaluative questions) and curriculum (more plurality of schools of thought). It is impressive and encouraging that the authors feel sufficiently strongly to write this book and this is a rare opportunity to hear a full-length and qualitative discussion from recent students. However, the fundamental issue is whether the arguments are sufficiently convincing to encourage academic economists to change their teaching. The book raises important issues and contains interesting data, but at the moment these serve more for a basis on which to formulate more precise questions and to collect more information. In its present state the narrative of this book is unlikely to persuade any but those who are already converted.

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<sup>12</sup> There is also the issue of the balance between project work in econometrics and theory teaching to ensure that students understand what they are doing. One of my colleagues has observed that the most frightening things in economics is someone with access to Stata who does not understand econometrics (although I think he was referring to academic staff rather than students).